DG 05-047

NORTHERN UTILITIES, INC.

2005 Summer Cost of Gas

Order Approving Cost of Gas

O R D E R N O. 24,460

April 29, 2005

APPEARANCES: Seth L. Shortlidge, Esq., of Gallagher, Callahan and Gartrell, on behalf of Northern Utilities, Inc.; Kenneth E. Traum for the Office of Consumer Advocate; and Edward N. Damon, Esq., for the Staff of the New Hampshire Public Utilities Commission

I. PROCEDURAL HISTORY

On March 15, 2005, Northern Utilities, Inc. (Northern) filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas Adjustment (COG) filing for the Summer Season, May 1, 2005 through October 31, 2005, for Northern's natural gas operations in the Seacoast area of New Hampshire. The filing was accompanied by the direct testimony of Joseph A. Ferro, Manager of Regulatory Policy, and supporting attachments.

On March 17, 2005, the Commission issued an Order of Notice and the Office of the Consumer Advocate (OCA) filed with the Commission a notice of intent to participate on behalf of residential utility consumers consistent with RSA 363:28; there were no other intervenors. On April 11, 2005, Northern filed with the Commission a revised 2005 Summer COG with supporting attachments. A duly noticed hearing on the merits was held at the Commission on April 12, 2005.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern witness Joseph A. Ferro testified as to the following issues: 1) calculation of the COG and impact on customer bills; 2) reasons for the increase in the summer COG rate; and 3) certain matters related to the Proportional Responsibility (PR) allocation methodology.

1. Calculation and Impact of the Firm Sales COG Rate

Mr. Ferro testified that the proposed 2005 Summer Season average COG rate (residential firm sales rate) is $0.9577 per therm. This rate reflects anticipated direct gas costs, indirect gas costs and various adjustments. Anticipated direct gas costs totaling $10,715,804 are increased by indirect costs (working capital, bad debt and overhead) of $97,721, a prior period under-collection of $35,626 and related interest of $4,687, and decreased by $100,623 for projected jurisdictional demand costs that are being deferred pending a resolution, to bring the total gas costs to be recovered over the 2005 Summer Season to $10,753,215. The gas costs for recovery over the upcoming summer period are divided by projected sales of 11,227,626 therms (based on 2004 summer normalized sales and projected sales growth) to arrive at the average COG rate.

Northern's proposed 2005 Summer Season residential COG rate of $0.9577 per therm is an increase of $0.0994 per therm from the 2004 Summer Season weighted firm sales COG rate of $0.8583 per therm. The impact of the proposed firm sales COG rate and a change in the Local Delivery Adjustment Clause (LDAC) rate from last summer is an increase in the typical residential heating customer's summer gas costs of approximately $28, a 6.13% increase over last summer. Last summer, the typical residential heating customer's total gas bill was $462. For the 2005 Summer Season of May through October, Northern estimates the typical residential heating customer will spend approximately $490.

2. Reasons for the Increase in Rates

Northern testified that the primary factor responsible for the increase in the proposed COG rate is an increase in the projected commodity gas costs of approximately $3.3 million. The natural gas prices as quoted on the New York Mercantile Exchange (NYMEX) are significantly higher than they were in the 2004 Summer Season COG filing.

The increase in projected commodity costs is partially offset by a decrease in projected demand costs and a decrease in the under-collection. Last summer's COG included a prior period under-collection of $293,885, whereas this summer's rate includes a prior period under-collection of $35,626. Thus, the cumulative impact on gas costs of the current under-collection, comparing last summer to this summer, is an increase of $258,259.

3. Proportional Responsibility Allocation Methodology

Mr. Ferro briefly summarized the PR Allocation Methodology under which Northern's fixed capacity-related demand costs are allocated between the New Hampshire and Maine divisions on the basis of PR factors. This method looks to a design year for the 12-month period ending April 30. According to Mr. Ferro, Northern first determines what its requirements are to satisfy its firm sales customers and firm transportation customers which are assigned Northern's capacity, i.e., "non-capacity exempt" customers. Next, Northern assigns its projected annual demand costs to the individual months on the basis of the peak demand of each month during the design year and then allocates the resulting assigned monthly demand cost to each division on the basis of the design year's monthly firm sendout factors. In 1995, the

Commission approved this method for allocating fixed demand costs, contingent upon its adoption by the Maine Public Utilities Commission (MPUC). *Northern Utilities, Inc.*, Order No. 21,882, 80 NH PUC 685 (1995). The PR methodology has been followed in New Hampshire ever since.

Mr. Ferro stated that Northern began offering transportation service to Maine commercial and industrial (C&I) customers starting in late 1995 and 1996. The design of the service allows firm sales service customers in Maine to switch to transportation without paying any of the fixed, capacity-related demand costs incurred by Northern on their behalf.

In New Hampshire, the Commission has approved mandatory capacity assignment, whereby C & I customers that migrate from firm sales to transportation service after March 14, 2000, are assigned an appropriate share of Northern's fixed, capacity-related demand costs. *See Gas Restructuring - Unbundling and Competition in the Natural Gas Industry*, Order No. 23,652, 86 NH PUC 131 (2001).

According to Mr. Ferro, transportation service in Maine has grown by about 10 customers per month over the last few years. Firm sales to Northern's Maine customers have decreased relative to firm sales to Northern's New Hampshire customers and therefore, New Hampshire's share of the capacity-related demand costs has increased. In addition, because Northern continues to hold capacity to serve Maine transportation customers that may return to sales service, the capacity surplus that resulted from the growth in Maine's transportation load has not been fully mitigated. This fact, together with the increase in the allocation percentage for the New Hampshire division, has resulted in an increase in demand costs allocated to New Hampshire. Northern estimates the additional cost to New Hampshire to be approximately $100,000 for the summer period and six to seven times that amount for the winter period.

In order to rectify the cost shifting problem and to address other concerns, Northern made a comprehensive unbundling filing with the MPUC on February 22, 2005, Docket No. 2005-87, that proposes the complete replacement of the existing transportation terms and conditions with new terms and conditions. The new terms and conditions include mandatory capacity assignment. It is Northern's intention to work with the Staff, the OCA, MPUC Staff and Maine's Office of the Public Advocate to achieve a fair and reasonable resolution of the cost shifting problem.

At the hearing on April 12, 2005, Northern introduced a Summer COG letter agreement (Agreement) between Northern, Staff and the OCA recommending that the Commission defer its review of the demand-related costs allocated to New Hampshire pursuant to the PR formula. Specifically, Northern agreed to defer recovery of $100,623 of fixed demand costs projected for the 2005 Summer Season that relates to the migration of sales service customers in Maine to transportation service. The Agreement also reserved the rights of the Staff and OCA to contest the recovery of fixed demand costs allocated to New Hampshire and collected by Northern during the 2004 Summer Season. Staff and the OCA agreed that they would not seek to disallow recovery of fixed demand costs allocated to New Hampshire prior to May 1, 2004. The Agreement does not address the allocation of 2004-2005 Winter Season costs.

B. OCA

The OCA stated that although it is always concerned about proposed rate increases, it did not oppose the proposed COG rates given recent developments in the market for natural gas in the United States.

C. Staff

George R. McCluskey testified for Staff regarding the PR allocation methodology and the Agreement. Mr. McCluskey explained that at the time the PR allocation methodology was approved, there was little or no firm transportation service available in Maine and New Hampshire, so the potential for customers migrating to transportation service from sales service and unfairly impacting the allocation of demand costs was not considered. Since that time, both New Hampshire and Maine have adopted transportation policies that allow firm customers to switch from sales to transportation service. Maine's transportation policy, however, differs from New Hampshire's in that sales service customers who switch to transportation are not required to pay the capacity-related demand costs incurred by Northern on their behalf. New Hampshire transportation customers, by contrast, are required to pay these costs. It is apparent to Commission Staff that demand-related costs allocated to Northern's New Hampshire division have increased steadily in recent years as a result of the migration of sales service customers to transportation service in Maine. As a result, New Hampshire's share of Northern's capacity-related demand costs has increased steadily in recent years. In addition, according to Mr. McCluskey, of the demand-related capacity costs that are avoided by transportation customers in Maine, approximately half gets shifted to New Hampshire and half to the remaining firm sales customers in Maine. Mr. McCluskey testified that during the upcoming summer 2005 period this phenomenon was expected to cost New Hampshire customers approximately $100,000 based on Northern's calculations.

In order to address this problem, Northern, the OCA and Staff entered into a letter agreement that provided for Northern to defer recovery of the estimated $100,000 pending the outcome of the Maine unbundling proceeding. It is Staff's position that those costs should be the responsibility of Northern's Maine Division and should be recovered from Maine customers. The parties to the Agreement have agreed to reserve their rights with regard to the ultimate disposition of those costs.

It is Staff's intention to intervene in the MPUC proceeding on behalf of the Commission with the objective of reaching a negotiated resolution of the cost allocation problem with the MPUC Staff, the Maine Public Advocate, the OCA and Northern. According to Mr. McCluskey, if a satisfactory resolution cannot be reached, Staff expects to submit testimony on the rate impact of Maine transportation policy on New Hampshire customers.

Staff recommended approval of Northern's proposed COG rates, based on an audit of last summer's gas costs and a thorough review of the filing. Staff noted that the demand and supply planning is consistent with what has been filed in previous years and approved by the Commission, and that customers are protected by the COG reconciliation, through which actual gas costs and revenues are reconciled and reviewed in the subsequent COG period.

Staff concludes that the Agreement adequately protects New Hampshire customers from the unreasonable allocation of costs to the New Hampshire Division due to migration of Maine customers to transportation service. This is achieved by the deferral of projected 2005 demand related costs and the reservation of Staff's rights regarding demand related costs recovered during the 2004 summer period.

III. COMMISSION ANALYSIS

We have before us the letter agreement between Northern, the OCA and Staff deferring recovery of capacity-related demand costs shifted to New Hampshire as a result of Maine customers migrating to transportation from firm sales service. Clearly, New Hampshire customers should not be responsible for costs incurred on behalf of Maine customers, but as this issue only recently came to light and is the subject of a proceeding before the MPUC,[1] we are hopeful that the problem will be resolved in a manner that is fair to all New Hampshire and Maine customers. Northern's agreement to defer recovery of approximately $100,000 of demand costs related to summer 2005 and the reservation of rights relating to demand costs incurred during the 2004 Summer Season are adequate short-term means[2] to protect New Hampshire's interests pending completion of the MPUC's investigation of its transportation policies. Accordingly, we approve the Agreement.

After careful review of the record in this docket, we find that Northern's proposed revised COG and LDAC rates will result in just and reasonable rates. Accordingly, we approve Northern's proposed 2005 Summer Season COG and continuation of the LDAC rates approved during the 2004-2005 winter COG proceeding.

Based upon the foregoing, it is hereby

ORDERED, that Northern's proposed 2005 Summer Season COG per therm rates for the period May 1, 2005 through October 31, 2005 are APPROVED effective for service rendered on or after May 1, 2005 as follows:

	Cost of Gas	**Minimum COG**	**Maximum COG**
Residential	$0.9577	$0.7662	$1.1493

[1] This issue is related to a MPUC proceeding initiated by Northern on February 22, 2005, Docket No. 2005-87 in which the Commission and OCA have filed petitions to intervene. On April 20, 2005, subsequent to the hearing in this docket on April 12, 2005, Northern filed a petition with this Commission, and the MPUC, to convene a joint hearing for the purpose of evaluating the continued reasonableness of the PR Allocation Methodology.

[2] In addition, our order approving Northern's 2004-2005 Winter Season COG filing stated, "[w]e will consider any future recommendations by the Staff, OCA or Northern regarding possible adjustments to the 2003/04 fixed costs assigned to Northern's New Hampshire Division that may be filed with the Commission in a future proceeding." *Northern Utilities, Inc.*, Order No. 24,389 (October 29, 2004), slip op. at 7-8.

C&I, Low Winter Use	$0.8870	$0.7096	$1.0644
C&I, High Winter Use	$1.0170	$0.8136	$1.2204

FURTHER ORDERED, that Northern may, without further Commission action, adjust the approved COG rates upward or downward monthly based on Northern's calculation of the projected over- or under-collection for the period, but the cumulative adjustments shall not exceed twenty percent (20%) of the approved unit cost of gas, i.e., the minimum and maximum rates as set forth above; and it is

FURTHER ORDERED, that Northern shall provide the Commission with its monthly calculation of the projected over- or under-calculation, along with the resulting revised COG rates for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. Northern shall include a revised tariff pages 38 & 39 - Calculation of Cost of Gas Adjustment and revised rate schedules if Northern elects to adjust the COG rates, with revised tariff pages to be filed as required by N.H. Admin. Rules, Puc 1603; and it is

FURTHER ORDERED, that the over- or under-collection shall accrue interest at the Prime Rate reported in the *Wall Street Journal*. The rate is to be adjusted each quarter using the rate reported on the first date of the month preceding the first month of the quarter; and it is

FURTHER ORDERED, that Northern's proposed 2005 LDAC per therm rates for the period May 1, 2005 through October 31, 2005, are APPROVED effective for service rendered on or after May 1, 2005 as follows:

	Energy Effic.	Envir. Remed. Costs	Wells Exit Fee	LDAC
Residential Heating	$0.0003	$0.0105	$0.0068	$0.0176
Residential Non-heating	$0.0003	$0.0105	$0.0068	$0.0176
Small C&I	($0.0058)	$0.0105	$0.0068	$0.0115
Medium C&I	($0.0058)	$0.0105	$0.0068	$0.0115
Large C&I	($0.0058)	$0.0105	$0.0068	$0.0115

FURTHER ORDERED, that Northern shall file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by N.H. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of April, 2005.

Thomas B. Getz Chairman	Graham J. Morrison Commissioner	Michael D. Harrington Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary